

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Hollingsworth Analyst: Marion Mann DeJong Bill Number: AB 2664

Related Bills: See Prior Analysis Telephone: 845-6979 Amended Date: 04/01/2002

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Teacher Retention Credit/Increase Credit Amount/Private School Credit

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new summary revenue estimate is provided.

X AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced February 22, 2002.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 22, 2002. STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would:

1. expand the teacher retention credit by:
increasing the amount of the credit, and
reducing the years of service requirement to provide credit to teachers with at least one year of service; and
2. create a credit for taxpayers whose children attend private school.

SUMMARY OF AMENDMENT

The April 1, 2002, amendment removed the provision of the bill that would have created a home school credit. Except for the revenue estimate and the discussion of the home school credit, the department's analysis of the bill as introduced still applies. A revised "Summary of Economic Impact" is provided below. In addition, the department's implementation considerations for the private school credit are reiterated below. The Board position remains pending.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Legislative Director

Date

Brian Putler

4/12/02

SUMMARY OF ECONOMIC IMPACT

This bill is estimated to impact Personal Income Tax revenue as shown in the following table.

Estimated Revenue Impact			
Years Beginning On or After January 1, 2002			
Enactment Assumed After June 30, 2002			
Fiscal Years			
(In Millions)			
Credits:	2002-03	2003-04	2004-05
Teacher Retention	-\$150	-\$115	-\$123
Private School	-\$300	-\$270	-\$290
Total Impact	-\$450	-\$385	-\$413

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

PRIVATE SCHOOL CREDIT

IMPLEMENTATION CONSIDERATIONS

This provision of the bill would raise the following implementation concerns. Department staff is available to assist the author with any amendments.

- The amount of the credit is determined by the amount of the taxpayer's "gross income." Since department systems capture adjusted gross income (AGI) and not "gross income," the credit amount could not be verified automatically. Generally, when income is used to determine a credit amount or limit a credit, the taxpayer's AGI is used.
- The term "child" is not defined. As currently drafted, grandchildren or foster children may not qualify for the credit, while adult children of the taxpayer may qualify. Undefined terms can lead to disputes between taxpayers and the department.
- It is unclear whether the kindergarten to 12th grade requirement applies to the child's attendance, to the private school, or both. If the requirement only applies to the definition of "private school," a child attending preschool at a private school that also provides kindergarten to 12th grade education would qualify for the credit.
- This bill does not specify how long the child must attend the private school to qualify for the credit. Thus, if a child attends as little as one day, the taxpayer could qualify for the credit.
- The bill does not specify who is eligible for the credit or how the credit should be divided in the case of divorced parents. If the child lives with each parent for part of the year, disputes could arise over which parent is entitled to the credit.

- This bill does not limit the number of years for the carryover period. The department would be required to retain the carryover on the tax forms indefinitely because an unlimited credit carryover period is allowed. Recent credits have been enacted with a carryover period limitation since experience shows credits typically are exhausted within eight years of being earned.

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